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THE ACCOUNTING FUNCTION

The Congress directed in the Accounting and Auditing Act of 1950 that:

"The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide--

- 1) Full disclosure of the financial results of the agency's activities;
  - 2) adequate financial information needed for the agency's management purposes;
  - 3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit;
  - 4) reliable accounting results to serve as the basis for preparation and support of the agency's budget requests, for controlling the execution of its budget, and for providing financial information required by the Bureau of the Budget . . ."
- (31 U.S.C. 66a).

The responsibility for implementing these legal requirements has been delegated by the Director to the Comptroller but the responsibility for utilizing accounting data for the economical attainment of Agency program objectives rests with the operating officials. These officials depend on accounting for current factual information on financial operations for purposes of planning and control, as well as for an historical record of financial transactions. Accounting constitutes a major factor in establishing and maintaining controls

**THE ACCOUNTING FUNCTION (Cont'd)**

over current operations and in providing financial data needed for planning and reporting.

As stated earlier, one part of the basic mission affecting Comptroller policy is the directive for a system of financial controls that will assure 1) compliance with legal requirements, and 2) prudent financial management. Agency Accounting controls are designed to prevent financial transactions not in conformity with legal requirements and to provide information necessary to show that legal requirements have been complied with.

The development of Agency financial controls involves several distinct aspects of a complex integrated accounting system based on the requirements of several laws:

1. Fund or appropriation accounting. This accounting controls the authority granted by the Congress to place orders (obligations) for goods and services and involves keeping records of items such as appropriations, apportionments, allotments, obligations, and expenditures.

2. Accrual accounting reflects financial transactions on the basis of the time period in which they occur regardless of the time cash is used. This means that assets and liabilities are recognized and a basis is established for recording costs and maintaining financial property records (inventory).

3. Cost accounting reflects the value of goods and services consumed in a given fiscal period regardless of when the goods

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and services were ordered, received and paid for. This type of accounting serves as a basis for evaluating the actual cost of program performance and for the preparation of cost based budgets.

4) Property accounting on a financial basis aids in managing property by reducing numbers of items to a common denominator-- dollars. Dollar amounts can be used a) in evaluating utilization, b) in comparing actual inventory losses with established standards for such losses, c) in measuring the rate at which property becomes unserviceable, d) in developing a keener appreciation on the part of the custodian of his responsibility through an awareness of the dollar amount involved, and e) in simplifying advance financial planning through the use of experience factors and ratios.

5) Special accounting of a commercial type for various wholly-owned Agency activities to provide operational cover and Agency financial control over the planning for and using funds.

The accounting cycle is called a fiscal year covering a twelve month period beginning 1 July and ending 30 June. However, all fund or appropriation accounting records are maintained for a three year period, the first year for recording obligations and expenditures or liquidation of obligations and the two succeeding years for recording adjustments in obligations and further expenditures or liquidation of obligations.

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